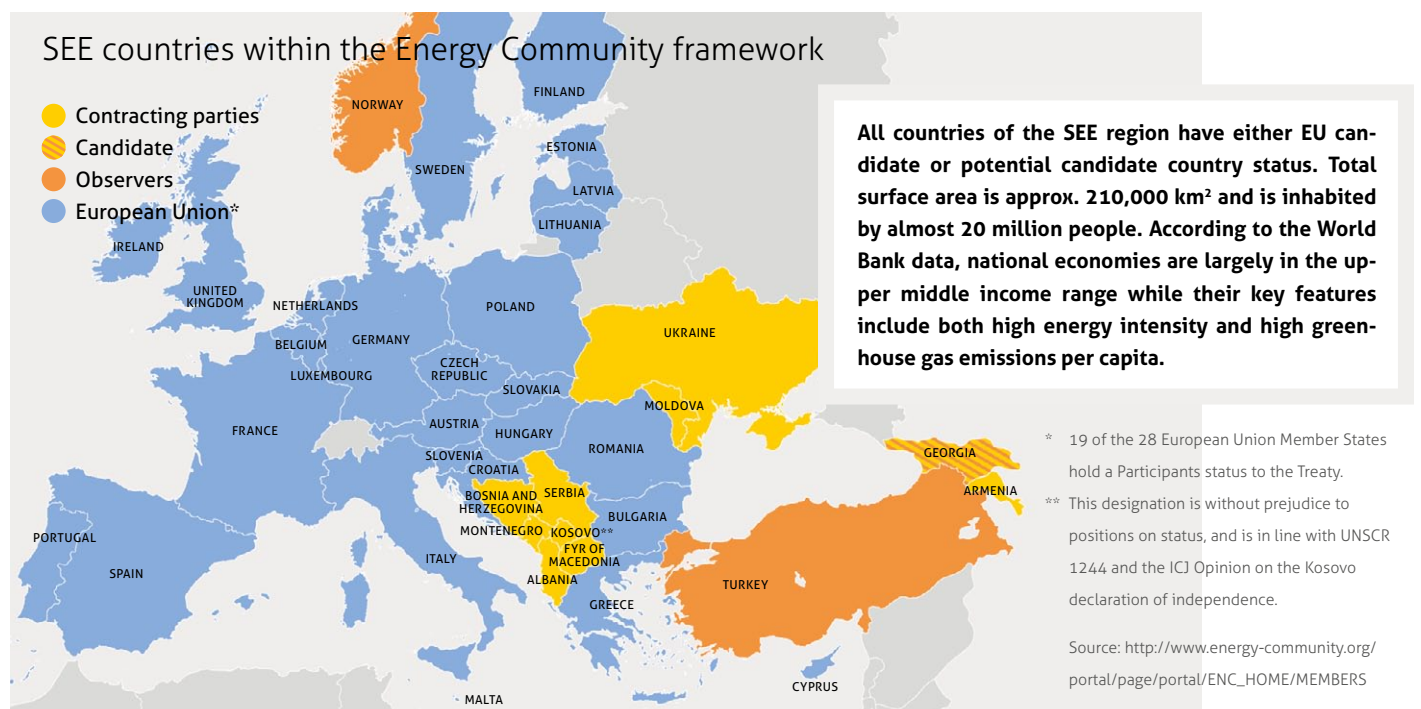


Southeast Europe: Climate and energy policy

The above NGOs have prepared this briefing for Members of the European Parliament in order to flag some of the most pressing issues related to climate and energy in the EU accession countries of Southeast Europe (SEE).



Why care about SEE?

Southeast Europe has always been more than just a neighbour to the EU: it has been a strategic partner in many areas, including trade, foreign policy, education and energy. This cooperation has witnessed many challenges, particularly in times of turmoil in the Western Balkans, during Yugoslavia's break-up in the 1990s. However, peace has been restored and all the countries have – to a greater or lesser extent – chosen the road of reform and recovery. Although some obstacles still remain and general progress is slow, EU acces-

sion and a requirement for regional cooperation have been key drivers for countries to change. The countries are now even more strongly connected to Europe, through EU accession negotiations that some of them have started, while others are still waiting to embark upon. The accession process is supported by the EU through the Instrument for Pre-Accession Assistance, which will provide several billion euros of financial aid to the region by 2020. Finally, at a time when the EU is contemplating a strengthened joint energy policy via an Energy Union, a strong and stable partnership in the energy sector with its neighbours is needed.

From a difficult history to shared values and economic development

The countries of the Western Balkans are today inextricably linked – not only because they share common history, but they also have similar challenges to deal with. This largely refers to the economic downturn caused by the war in the 1990s, reinforced by the global financial crisis in 2008. Still, the countries nowadays have the same interests, meaning economic recovery and EU accession. These two goals have encouraged them to join their efforts into a regional approach – led by the Regional Cooperation Council¹ – in a *SEE 2020 Strategy* aiming to achieve ambitious goals by 2020, including 1 million jobs across the region. One of the key sectors that should deliver this result is *the energy sector*. Moreover, according to the Energy Community Regional Energy Strategy, 30 billion euros of investments in the energy sector are planned by 2020, including some unsustainable export plans.²

The Energy Community: towards a fair and integrated energy market

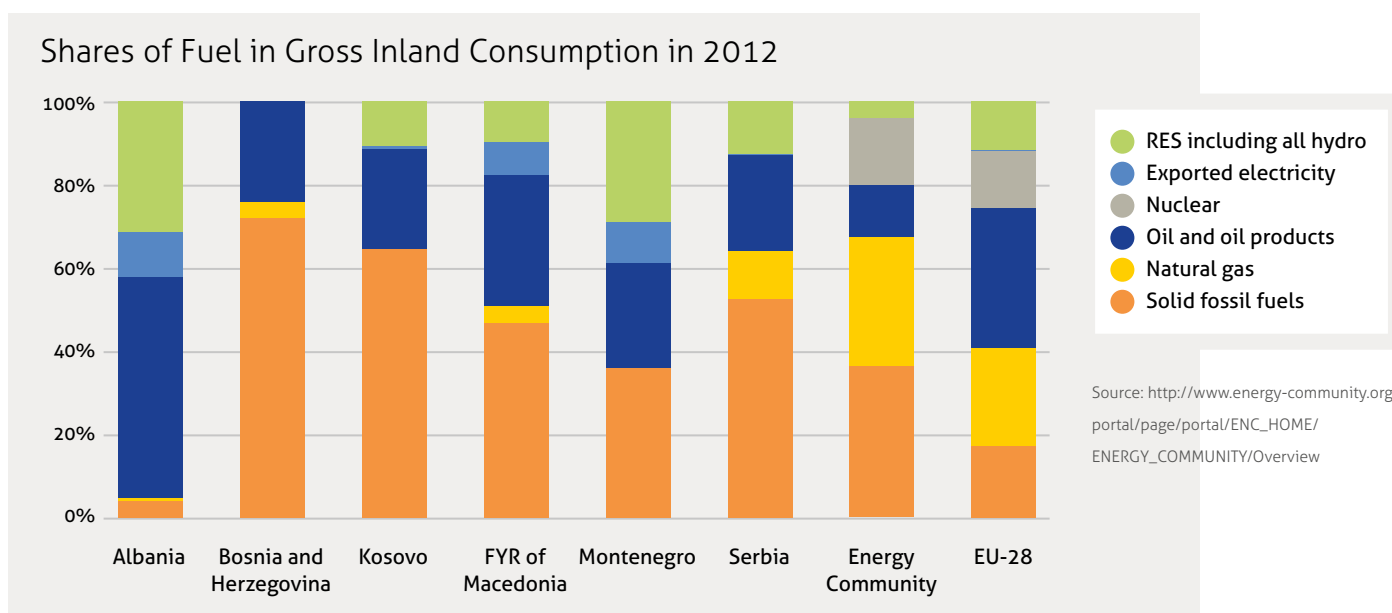
The regional approach in the energy sector has been underpinned by the Energy Community, an intergovernmental organization aimed at extending the EU's internal energy policy into non-EU Member States in Southeast Europe, and also into Moldova and Ukraine. Its aims include bringing investments into the energy sector, improving security of supply and enhancing

environmental conditions, with the ultimate goal of integrating this energy market with the EU's. In addition, the functioning of the Energy Community is today 95% funded by EU money.

At the moment, the Energy Community only requires the adoption and implementation of patchy pieces of EU environmental legislation, which are insufficient to ensure equal living conditions for citizens of the region. It is expected that the Energy Community reform³ process that is underway will address this to a certain extent, by introducing additional environmental provisions (e.g. Chapter II of the Industrial Emissions Directive, Ambient Air Quality Directive and others). Clearly, any future integrated energy market will not be fair unless the same environmental standards are applied in SEE as in the EU.

Renewable energy and energy efficiency targets are in place...

The establishment of the Energy Community has brought some progressive energy policies to the mainly coal and large hydropower reliant SEE region (see graph below). These policies include the obligation to increase the share of renewable energy sources (20% overall by 2020) and improve energy efficiency (9% by 2018 each). The renewables target has been broken down into national commitments, in the same way as in the EU, only against a 2009 baseline. This results in variable national targets varying from 11% in Ukraine to 40% in Bosnia and Herzegovina.



...but climate targets are still missing!

Despite the fact that countries are on a path to the EU accession and are signatories to the United Nations Framework Convention on Climate Change and the Kyoto Protocol, none of them have greenhouse gas emission reduction targets in place. The European Commission encourages SEE countries to adopt such targets but to date, none of the countries actually complied with this. In October 2014, the EU Commission published *Progress reports* for each of the SEE countries, inviting them to put forward their climate commitments ahead of COP 21 in 2015. A persistent effort will be needed to ensure governments actually abide by this ask.

Overwhelming energy intensity is coupled with regulated prices...

Data from the latest *Annual Implementation report* of the Energy Community Secretariat, indicates that in 2012, the energy intensity⁴ of the concerned SEE countries was three times higher than the average energy intensity in the EU. Commercial and technical losses amount on average to about 20% in the region, according to a report⁵ published by a group of NGOs within the SEE SEP project. The explanation for such staggering differences is to be found in the structure of economic activities (manufacturing vs. services) but also in low levels of energy efficiency. The key culprits are old and inefficient energy facilities, mainly coal-fired thermal power plants, as well as poorly insulated houses and inefficient practices such as using electricity for heating⁶. In addition, energy prices are still regulated across the region and are kept artificially low, which essentially acts as market entry barrier to other energy providers. This lack of competition enables existing energy providers to act like monopolies without any real market incentives to change their behaviour, namely increasing the use of renewable sources of energy and improving energy efficiency in production and distribution of energy.

...while corruption thrives across the region!

A report⁷ published by a group of NGOs within the SEE Sustainable Energy Policy (SEE SEP) project earlier this year demonstrated how serious corruption is in the region. Their report estimated that tens of millions of euros have been lost over the last two decades in the energy sector across the region, due to several high profile cases of corruption. Having in

mind that another 30 billion euros worth of investments in the energy sector are planned in the coming decades⁸, it will be essential to ensure tenders and processes are performed in a transparent way. Also, compliance with EU rules in areas of state aid and public procurement needs to be ensured in the region through the Energy Community framework and EU accession negotiations.

Large energy import dependency in light of devastating floods and the Ukraine crisis

On average, the import share of energy in the region is 30%⁹. As in the EU, this largely relates to imports of oil and gas but it also includes electricity. However, electricity imports became a particularly prominent issue in Serbia after the May 2014 floods, which resulted in electricity imports of 400,000 euros per day after large mines and power plants were flooded. The floods exposed how potentially vulnerable SEE energy systems could be, as they affected both the largest coal plant and coal mine in Serbia, the latter is still under water.

In addition, gas stress test results¹⁰ published by the Commission indicate that cooperation with EU neighbours will be particularly significant for securing energy supply in the short and midterm. This is why import dependency should be tackled jointly with the EU, within the 2030 Climate & Energy framework, as well as the Energy Security Strategy and the Energy Union initiative. In this regard, fostering further energy efficiency measures will be particularly significant, given the vast potential of the SEE region, as well as developing EU policies and needs¹¹ in this field.

The environment and people's health are under pressure

The region's heavy reliance on fossil fuels, particularly coal, has led to major environmental and health problems. Areas around coal mines and coal-fired power plants are well-known as environmental 'black spots', with poor air quality and polluted water and soil. Medical records in these areas testify to the increasing number of respiratory diseases, with health costs amounting to over 1 billion euros annually in Serbia alone¹². Moreover, tackling these issues will bring economic benefits: a cost-benefit analysis done by the Energy Community proved that each euro spent towards compliance with EU pollution standards saves 17 euros towards environmental and health costs in the Energy Community countries¹³.

Human rights and media freedom as the essence of democracy

As acknowledged by the EU Commission's *Progress reports* for 2014, SEE countries still struggle heavily with respect to some human rights, particularly freedom of the press. This often leads to a situation in which civil society representatives feel unsafe to do their job. There are cases where campaigners have been slammed by the tabloid media or questioned by different law enforcement officials. This needs to change swiftly if the countries intend to be truly democratic.

How can Members of the European Parliament help SEE countries move forward?

- Pay close attention to the Energy Community reform process. A communication from the Commission is expected by the end of the year, but discussion will last well into 2015.
- Engage in the energy security debate, as it will be the basis for strengthening relations with the Energy Community.
- Help shape the Energy Union initiative so it takes into account sustainable energy solutions based on energy efficiency and renewable sources and is observant of environmental and nature protection requirements and good practices.
- Early next year: You will need to vote on EU Progress reports for SEE countries, proposed by the Commission. This is an opportunity to pass a resolution calling for quicker implementation of EU rules not only in the energy sector but also related to environment, climate change and human rights.

NOTES

1. www.rcc.int
2. See CEE Bankwatch Network (2012): *A partnership of unequals: Electricity exports from the eastern neighbourhood and Western Balkans*
3. The Energy Community Treaty entered into force in 2006, for a period of 10 years. The ECT Ministerial Council decided to extend it for another 10 years in October 2013. However, a reform process was launched so that revised Treaty can address deficiencies of the existing provisions, particularly enforcement mechanisms.
4. Energy intensity indicates the amount of energy used to produce one unit of GDP.
5. SEE SEP Programme (2013): *Safe, Warm, Clean Energy: Which Path are the SEE countries taking?*
6. The use of electricity for heating is highly inefficient as it involves more conversion of fuel than necessary (eg. burning coal, gas or biomass to produce heat to make steam to make electricity, but then converting the electricity to heat again with associated losses in efficiency during the multiple conversions. This is much less efficient than a well-run district heating system which simply burns fuel and uses the heat directly, or co-generation where heat and electricity are generated in the same plant and the heat is used directly for heating).
7. SEE SEP Programme (2014): *Winners and Losers: Who benefits from high-level corruption in the South East Europe energy sector?*
8. Energy Community Secretariat (2012): *Energy Strategy of the Energy Community*
9. Energy Community Secretariat (2014): *Annual Implementation Report 2014*
10. As a follow up to Ukraine-Russia crisis, the European Commission conducted a gas stress test in order to analyse the resilience of the EU energy system to a potential crisis in the coming months. The test included 38 countries, including all countries of the region.
11. E3G (2014): *Energy Security and the Connecting Europe Facility*
12. Health and Environment Alliance (2013): *The Unpaid health bill: How coal power plants makes us sick*
13. Energy Community Secretariat (2013): *Study on the Need for Modernization of Large Combustion Plants in the Energy Community*

**We are here to provide assistance and present information from national and local groups.
For any questions please contact:**

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